

Message Text

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ACTION ARA-17

INFO OCT-01 ADP-00 CCO-00 SSO-00 NSCE-00 INRE-00 AID-20

CIAE-00 COME-00 EB-11 FRB-02 INR-09 NSAE-00 RSC-01

TRSE-00 XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 SAL-01

OMB-01 NSC-10 SS-14 STR-08 CEA-02 L-03 RSR-01 /129 W

----- 091714

O 191554 Z MAR 73

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC IMMEDIATE 3760

C O N F I D E N T I A L SANTIAGO 1113

SUBJ: CERRO NEGOTIATIONS

PASS OPIC AND EXIM

1. SUMMARY: AFTER ARRIVAL OF CERRO PRESIDENT MURPHY ON THURSDAY AFTERNOON, CERRO GROUP MET WITH GOC NEGOTIATING COMMITTEE. CENTRAL BANK PRESIDENT INOSTROZA PARTICIPATED IN MOST MEETING. DISCUSSION REACHED CRISIS POINT ON FRIDAY NIGHT AND ACTUALLY BROKE UP OVER MURPHY'S DEMAND THAT SUBSTANTIAL PAYMENTS BE MADE IN 1973 AND 1974. GOC GROUP CONSULTED WITH ALLENDE ON SATURDAY WHO REPORTEDLY INSTRUCTED THAT THEY FIND WAY TO MAKE PAYMENT. A FIGURE OF US\$860,000 PAYABLE DECEMBER 31, 1973 WAS AGREED UPON THOUGH CERTAIN OTHER ELEMENTS OF PAYMENT SCHEDULE REMAIN TO BE TIED DOWN. ACCORDING TO CERRO'S CHILEAN COUNSEL ENRIQUE PUGA, GROUP FELT THAT THEY WERE NEARER THAN EVER TO AGREEMENT. PRESENT PLAN IS FOR CERRO VP WALSH TO RETURN FOR FURTHER TALKS AT END OF THIS MONTH. END SUMMARY

2. CERRO REPS WALSH AND OGDEN WERE JOINED ON THURSDAY AFTERNOON BY PRESIDENT GORDON MURPHY. GROUP TOGETHER WITH CHILEAN COUNSEL PUGA WENT STRAIGHT FROM AIRPORT TO 4:30 P. M. MEETING WITH GOC COMMISSION AT WHICH CENTRAL BANK PRESIDENT INOSTROZA WAS PRESENT. DISCUSSION MOVED IMMEDIATELY TO GUT ISSUES OF PAYMENT SCHEDULE, CONDITIONS FOR

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POSSIBLE ACCELERATION OF NOTES, PLANS FOR EXPANSION OF MIN, ARRANGEMENTS FOR SALE OF EXPANSION CONCENTRATES, ETC.

3. WHILE PROGRESS WAS MADE ON SOME OF THESE POINTS, INOSTROZA AGAIN TOOK POSITION THAT GOC COULD MAKE NO PAYMENT IN 1973 AND ONLY A NOMINAL ONE IN 1974. MEETING CONTINUED ON FRIDAY WITH INOSTROZA STILL STICKING TO THIS POSITION UNTIL MURPHY STATED CLEARLY THAT WITHOUT SUBSTANTIAL PAYMENTS IN 1973 AND 1974 THERE COULD BE NO DEAL. MEETINGS WERE THEN BROKEN OFF. THOUGH SOME MENTION WAS MADE OF A POSSIBLE MEETING ON SATURDAY, NO FIRM ARRANGEMENTS WERE MADE.

4. ON SATURDAY MORNING PUGA MET WITH CODELCO COUNSEL FORTIN WHO EXPLAINED THAT HE THOUGHT INOSTROZA WAS TAKING THIS POSITION BECAUSE THERE WERE INNUMERABLE PARTIES CLAMORING FOR EXTREMELY SCARCE CENTRAL BANK RESOURCES AND THAT ANY CRACK IN THE DIKE, EVEN FOR A CAUSE AS IMPORTANT AS CERRO'S, WOULD BRING A FLOOD OF OTHER CLAIMANTS. PUGA EXPLAINED, HOWEVER, THAT MURPHY WAS PERFECTLY SERIOUS ABOUT GETTING SUBSTANTIAL PAYMENTS IN BOTH 1973 AND 1974. APPARENTLY HE HAD BEEN THINKING IN TERMS OF 1.5 TO 2 MILLION FOR 1973.

5. AFTER THIS CONVERSATION INOSTROZA AND OTHERS FROM GOC COMMISSION MET WITH ALLENDE AND RETURNED WITH INSTRUCTIONS THAT THEY FIND A WAY TO MAKE PAYMENTS IN 1973 AND 1974. (LETELIER'S ACCOUNT OF THIS TO ME WAS THAT ALLENDE INSTRUCTED CHILEAN NEGOTIATORS THAT THEY SHOULD "SEND MURPHY AWAY HAPPY." I DO NOT THINK HOWEVER, THAT WE CAN REGARD THIS NEGOTIATION AS OUT OF THE WOODS.) ACCORDING TO PUGA TWO SIDES THEN AGREED ON 1973 FIGURE OF US\$860,000 PAYABLE DECEMBER 31.

6. IN MEETINGS LATE SATURDAY AFTERNOON AND EVENING PARTIES REPORTEDLY AGREED ON ALL MAJOR OUTLINES OF PACKAGE APPROXIMATELY AS FOLLOWS:

(A) CERRO WOULD OBTAIN FINANCING FOR A 40 PERCENT EXPANSION OF ANDINA PRODUCTION, A PROJECT WHICH CERRO BELIEVES CAN BE COMPLETED WITHIN TWO YEARS. THE SEARCH FOR FINANCING IS APPARENTLY WELL ADVANCED.

(B) GOC WILL COMMIT ITSELF TO PAYMENT ON NEW NOTES IN ACCORDANCE WITH A FIXED PAYMENT SCHEDULE SUBJECT TO POSSIBLE REPEAT POSSIBLE ACCELERATION. PAYMENTS ON THESE NOTES WOULD BE CONFIDENTIAL

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RELATIVELY SMALL FOR FIRST TWO YEARS BUT WOULD THEN MOVE UP

SHARPLY (TO APPROXIMATELY \$8 MILLION PER YEAR) FOR NEXT 8 YEARS
THEN DROPPING OFF TO APPROXIMATELY US\$650,000 PER YEAR
FOR THE REMAINING 5 YEARS. TOTAL AMOUNT PAYABLE WOULD
REMAIN APPROXIMATELY US\$38 MILLION TO PRESENT VALUE DISCOUNTED
AT 9 3/0 PERCENT.

(C) CERRO WOULD HAVE WHAT AMOUNTS TO AN AGENCY FOR SALE FOR
PRODUCTION RESULTING FROM EXPANSION PROGRAM. ACCORDING TO
TENTATIVE PLAN EXPANSION CONCENTRATES WOULD BE DESTINED FOR
REFINING AT VENTANAS SMELTER AND WOULD BE PURCHASED BY CERRO FOB
VENTANAS AT CHILEAN PRODUCER PRICE. PART OF THIS PRODUCTION
WOULD BE PURCHASED BY CERRO IN PERU AND THE REMAINDER SOLD
ELSEWHERE. PROCEEDS OF SALE WOULD BE USED FIRST TO SERVICE
EXPANSION PROGRAM DEBT, SECOND TO MAKE UP ANY DELINQUENT
PAYMENTS ON NEW NOTES AND, THIRD TO MAKE ACCELERATED PAYMENTS
ON NEW NOTES. ACCORDING TO PUGA, GOC REPS OFFERED TO HAVE
DECREE ON EQUITY PAYMENTS ISSUED THIS WEEK FOR ACCEDED TO
MURPHY' S REQUEST THAT THEY WAIT UNTIL ENTIRE DEAL CONCLUDED.

7. WHEN THEY LEFT EARLY YESTERDAY SOME PROBLEMS REMAINED ON
PAYMENT SCHEDULE BUT PUGA' S ACCOUNT OF STATUS OF NEGOTIATIONS WAS
QUITE OPTIMISTIC. MAJOR OUTSTANDING PROBLEM ACCORDING TO PUGA
IS HOW GOC WILL HANDLE SALES COMMISSION DUE CERRO ARISING FROM
SUMITOMO CONTRACT. GOC ATTORNIES HAD RAISED QUESTIONS ABOUT GOC
AUTHORITY TO MAKE PAYMENT OF THESE COMMISSIONS BECAUSE OF LANGUAGE
IN CONSTITUTIONAL AMENDMENT WHICH EXPROPRIATED COMPANIES. PARTIES
TALKED OF POSSIBILITY THAT GOC MIGHT SUBMIT QUESTION TO WHAT MIGHT
AMOUNT TO A RIGGED ARBITRAL PANEL WHICH WOULD AWARD PAYMENT TO
CERRO. PLAN WOULD BE TO HAVE SUBSTANTIAL PORTION OF THIS AMOUNT
PAID IN SECOND YEAR.

8. CERRO VP WALSH PLANS TO RETURN FOR FURTHER DISCUSSION IN LAST
WEEK OF THIS MONTH.
DAVIS

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*** Current Classification *** CONFIDENTIAL

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